

APPROPRIATE AWARD-FEE
CONVERSION SCALES CAN ENHANCE
INCENTIVE FOR CONTRACTOR
PERFORMANCE

SIGIR-08-009
JANUARY 24, 2008

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SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 24, 2008

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ

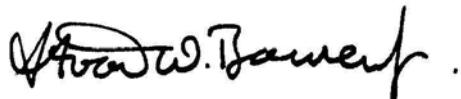
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE
COMMANDING GENERAL, MULTI-NATIONAL FORCE-IRAQ
COMMANDING GENERAL, GULF REGION DIVISION, U.S. ARMY
CORPS OF ENGINEERS
COMMANDING GENERAL, JOINT CONTRACTING COMMAND-
IRAQ/AFGHANISTAN

SUBJECT: Report on Use of Appropriate Award-Fee Conversion Scales Can Enhance Incentive for Contractor Performance (SIGIR-08-009)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties under Public Law 108-106, as amended. The law requires that we produce independent and objective audits of – as well as leadership, coordination, and recommendations on – policies designed to promote economy, efficiency, and effectiveness the administration of programs and operations and to prevent and detect waste, fraud, and abuse. This review was conducted as SIGIR project 8008.

We received comments from the Office of the Assistant Deputy Assistant Secretary of the Army (Policy and Procurement) – Iraq/Afghanistan and an e-mail response from the U.S. Army Corps of Engineers Gulf Region Division on a draft of this report, which was considered when preparing the final report. The comments are noted in the Management Comments section of the report.

SIGIR appreciates the courtesies extended to our staff. For additional information on this report, please contact Glenn Furbish (glen.furbish@sigir.mil /703-428-1058); or William Shimp (william.shimp@iraq.centcom.mil /703-343-7923



Stuart W. Bowen, Jr.
Inspector General



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 24, 2008

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ

DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE
COMMANDING GENERAL, MULTI-NATIONAL FORCE-IRAQ
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SUBJECT: Report on Use of Appropriate Award-Fee Conversion Scales Can Enhance Incentive for Contractor Performance (SIGIR-08-009)

In March 2004, the U.S. government issued seven cost-plus award-fee contracts providing program-management support services for reconstruction efforts in Iraq. SIGIR issued a report on October 29, 2007, that broadly addressed the use and performance of these contracts in managing Iraq Relief and Reconstruction projects.¹ SIGIR decided to separately address the issue of using conversion scales in determining contractor performance-award fees.

Accordingly, this follow-on report discusses the extent to which these contracts followed the U.S. Army's recommended best practices in using conversion scales in the award-fee process.

Each of the seven contracts was awarded on a cost-plus award-fee basis in which contractor costs were reimbursed. The contractor also received a base fee of 3 percent of budgeted cost and was eligible for an award fee of up to 12 percent of the budgeted cost. (One exception: the electricity sector, in which award-fee eligibility ranged from nine to 13 percent, depending on the year).

Results

The contracts and related guidelines did not specify the type of award-fee conversion scale that was to be used in calculating award fees under these contracts, and the government agencies involved in managing the contracts used the same scale for calculating award fees for all sectors and all award-fee periods. The conversion scale used, however, was not a type recommended by the U.S. Army in that it did not provide proper incentives for contractors to strive for better-than-expected results. For example, the scale awarded no fee for a performance score of less than 60, but did award a fee of at least 60 percent of the fee pool for a score of at least 60. Thus, a performance score of 65, which is in the "Good" range and barely above the award threshold, would bestow on the contractor 65 percent of the award-fee pool. Use of this scale represented a

¹ SIGIR audit report 08-003, "Review of the Use of Contractors in Managing Iraq Relief and Reconstruction Projects," October 29, 2007.

departure from best practices recommended by the Army and reduced the incentive for improved contractor performance.

The *Army Contracting Agency Award Fee Contracts Handbook* was issued in September 2003 to provide information and guidelines for developing and administering this type of contract. The ACA handbook is intended to be a “living” document, updated to reflect current best practices and policy concerning award fee contracts, and to be responsive to the needs of the ACA acquisition community. The handbook suggests different types of conversion scales that could be used to create incentives for the contractor to achieve superior results. However, a common characteristic of effective incentives on all of the recommended scales is that the percentage of the fee awarded for meeting the minimum threshold begins at zero, not 60. For example, one of the conversion scales recommended by the ACA is called the cubic-distribution award-fee scale, in which a score of 70 would translate to an award of only 19 percent of the fee pool.

The value of using a more appropriate conversion scale is best illustrated through the example of the fees awarded to one of the sector contractors. Over a 15-month period, the contractor received performance ratings ranging from 61.79 to 81.23. These scores were converted to award fees totaling \$3,239,178. If the cubic-distribution award-fee scale had been used, the authorized fees would have been \$1,085,700, a difference of \$2,153,478. Because the contractor received high fees for a relatively modest performance, we conclude that use of a recommended conversion scale might have provided greater incentive for the contractor to achieve superior results at perhaps less cost to the government.

Background

After examining options for managing its large reconstruction program in Iraq, the Coalition Provisional Authority decided in August 2003 to form a Program Management Office (PMO) that would oversee the effort. The PMO established six program-management offices organized by work sector, such as electricity and public works/water. Although these offices were led by government employees, the PMO decided to rely on contractors to fill key roles in supporting and executing the reconstruction program; technical contractors would be used to design, plan, build, and complete projects, and another group of contractors would provide program management-support services. Seven contracts for the latter were awarded in March 2004—one for the PMO as a whole and one for each of the six sector offices, as shown in Table 1.

Table 1—Program Management-Support Contracts Awarded in March 2004

Contract Number	Services/Sectors	Contractor
W914NS-04-C-0001	PMO Support	ATC Services, Inc.
W914NS-04-C-0002	Electricity Sector	Iraq Power Alliance Joint Venture (JV)
W914NS-04-C-0003	Public Works/Water Sector	CH2M Hill/Parsons Water Infrastructure JV
W914NS-04-C-0004*	Security/Justice Sector	Berger/URS JV
W914NS-04-C-0005*	Buildings/Health/Education Sector	Berger/URS JV
W914NS-04-C-0006*	Communication/Transportation Sector	Berger/URS JV
W914NS-04-C-0007	Oil Sector	Foster Wheeler

* Denotes three contracts subsequently consolidated into one

Source: SIGIR analysis of data from the U.S. Army Corps of Engineers, Gulf Region Division (GRD) and Joint Contracting Command – Iraq/Afghanistan (JCC-I/A).

Under these cost-plus award-fee contracts, contractor costs were reimbursed. Contractors also received a base fee of 3 percent of budgeted cost, with a possible award fee of up to 12 percent. The electricity sector was an exception: there the contractor was eligible for an award fee ranging from nine to 13 percent, depending on the year. Each contract included a base year plus two option years—and in each case, the options were exercised.

Award-Fee Process

Contractor performance is evaluated through the implementation of award-fee plans built into the contracts. The plans judge performance on a set of factors, such as program management; capacity development; contract-acquisition strategies; technical management; and participation of small businesses, coalition partners, Iraqi companies, and Iraqi women-owned businesses. Despite some small differences in the award-fee plans for these seven contracts, the process was basically the same. Contractors began each evaluation period with zero percent of the available award-fee and work toward earning the maximum award fee for each evaluation period.

The award-fee pool is the total dollars that can be earned for each evaluation period and is based on budgeted costs for the period. Award-fee determinations are based on subjective performance evaluations provided by an Award-fee Evaluation Board (AFEB) and an Award-fee Determining Official (AFDO). Performance monitors are supposed to provide continuous evaluation and assessment of each contractor's daily work. Performance monitors cannot be members of the award-fee board.

Typically, membership on an AFEB includes the sector lead, the contracting officer, and other sector staff. The board is responsible for reviewing the performance monitors' evaluations, the contractor's self-evaluation, and other information in order to arrive at an objective and impartial judgment of the contractor's work. The task is then to decide how well the contractor performed

in each area using the metrics provided in the award-fee plan. Voting members score contractor performance individually and in writing, with the reports consolidated into a single, award-fee score. Scores are then converted into an award-fee amount through the use of a conversion scale. Because it is independent of the AFEB, the AFDO makes the final decision on the amount of award-fee earned. The latter becomes involved only after the evaluation board has met and agreed on a recommended award-fee score. According to the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A)² guidelines, the AFDO's decision must be documented and provided to the contractor within five days after the decision and simultaneous with the contract modification signed by the contracting officer to obligate the fee amount. The contractor can then immediately submit an invoice for the earned fee.

In July 2005, the JCC-I/A issued a memorandum to the AFDO, the AFEB chairmen, contracting officers, and other concerned officials in an effort to establish JCC-I/A AFEB policy. The goal: to provide guidelines and establish responsibilities for evaluating and administering award fees for JCC-I/A cost-plus award-fee contracts. The award-fee plans for these contracts were generally consistent with these guidelines, with the policy stating that "award fee provisions are added to a cost reimbursement contract to provide an incentive to excel in critical performance areas emphasized in an Award Fee Plan." However, neither the guidelines nor the individual plans identified an award-fee conversion scale to be used in determining the fees awarded.

In recent years, SIGIR has issued several reports dealing with award fees, including two that focused on the use of conversion scales. In July 2005 SIGIR issued an interim briefing,³ and in October 2005 SIGIR final audit report,⁴ on the award-fee plans and their execution for major cost-plus award-fee contracts--both design-build and program-management types. The report found various weaknesses in managing the award-fee process, including the fact that the award-fee conversion scale used for most of the plans was substantially different from the types of scales recommended by the Army in that they did not provide proper incentives for contractors to strive for better-than expected-results. We recommended a method of applying the award fee to provide additional incentive for contractors to achieve quality results.

More recently, in October 18, 2007, we issued a report on the use of contractors in supporting management of Iraq reconstruction projects—the contractors discussed in this document.⁵ We elected to defer a discussion of the award-fee conversion-scale issue and deal with it in a separate report. See Appendix A for a discussion of our scope and methodology for this review. Other SIGIR reports related to program management and award fees are also included as part of Appendix A.

² JCC-I/A was created on November 12, 2004, under PCO, to centralize contracting under one organization.

³SIGIR interim briefing 05-010, "Interim Briefing to the Project and Contracting Office and the Joint Contracting Command – Iraq, Audit of the Award Fee Process", July 26, 2005.

⁴ SIGIR audit report 05-017, "Award Fee Process for Contractors Involved in Iraq Reconstruction", October 25, 2005.

⁵ SIGIR audit report 08-003, "Review of the Use of Contractors in Managing Iraq Relief and Reconstruction Projects", October 18, 2007.

Appropriate Award-Fee Conversion Scales Are Important to Effective Contract Management

Army Has Identified Best Practices

The purpose of the award fee is to motivate specific performance levels that cannot be objectively quantified but can be assessed by government personnel. An important step in this process involves developing an award-fee conversion scale structure that will best motivate the contractor. The *Army Contracting Agency Award Fee Contracts Handbook* was issued in September 2003 to provide information and guidelines for developing and administering award-fee contracts. The handbook is intended to be a “living” document, updated to reflect current best practices and policy concerning this type of contract, and to be responsive to the needs of the ACA acquisition community.

The handbook states that the first step in developing a conversion scale is to determine the incentive structure that will best motivate the contractor. The handbook further states that there is no cookie-cutter way to determine the best strategy. A scale on which each performance point equals the same percentage of the available award fee pool is known as a *linear scale*, and one that awards smaller proportions of the fee at the lower half of the range and higher proportions at the upper half of the range is known as a *non-linear scale*. The handbook cites two overarching principles when designing an award-fee conversion scale:

- As a result of the “law of diminishing returns,” a contractor’s performance requires a disproportionate expenditure of resources as it comes closer and closer to perfection. When performance is mediocre, there are a number of low cost improvements available; but as performance is strengthened, the available improvements become more and more expensive to implement.
- As improvements become more difficult and expensive to achieve, with performance climbing into the excellent range, a non-linear scale, which places more fee in the upper half of the scale, rewards the contractor for the greater effort and management expended.

The handbook identifies three non-linear scales, each represented graphically by a curve: the power, quadratic, and cubic curves. All three scales specify that the fee awarded starts at zero percent for a score of 60 and rises incrementally. The cubic curve has an S-shape that, unlike the other two, tails off as it approaches 100 points. Further, the cubic curve provides a distribution scale that is more appropriate to recognition of the law of diminishing returns and properly rewarding superior performance. A fee table assists in the conversion of scores to a specific, recommended amount of fee. For the cubic distribution table, see Appendix B.

In our October 2005 audit report, we observed that the award-fee methodology for all of the program-management contracts had a linear conversion scale that awarded a fee percentage that directly matched the performance rating (if it was at least 60). In other words, if the rating was less than 60 (in the “Poor/Inadequate” range), the contractor received no award fee. If the performance rating was 65 (in the “Good” range and barely above the threshold to receive an award), the contractor received 65 percent of the fee pool.

The impact of using a linear scale instead of the recommended scales becomes most acute and apparent for performance scores that barely exceed the threshold to receive an award fee. Four of the five contractors consistently received scores of 81 or above, in the “Excellent” or “Outstanding” range, so the difference in award fee by using the recommended conversion scales would have been relatively small. Nevertheless, benefits might have accrued from using a more-appropriate, non-linear scale to encourage better contractor performance.

Selected Sector Contract Illustrate How Conversion Scales Can Impact Performance Incentives and Award Fees

To illustrate the differences between using linear and non-linear scales to calculate award fees, we identified the amount of actual award fees granted on the seven program-management-sector contracts⁶ for periods through June 2007. We then compared the actual award fees under one of these contracts, using a linear scale with the fees that might have been awarded had an appropriate *non-linear* scale been used. Table 2 shows the difference in award fees for that contractor over a 27-month period.⁷

Table 2—Comparison of Award Fees Using a Linear and Non-linear Conversion Scale

Award Fee Period	Eligible Award-Fee Pool	Performance Rating	Award Fee Authorized Using a Linear Scale	Award Fee Based on a Non-linear, Cubic-Conversion Scale	Difference
3/10/05 – 6/09/05	\$714,811	74.25	\$530,890	\$224,451	\$306,439
6/10/05 – 9/09/05	714,811	77.71	555,480	304,509	\$250,971
9/10/05 – 12/09/05	714,811	68.48	0.00 ⁸	-	\$0.00
12/10/05 – 3/09/06	947,611	67.58	640,396	121,294	\$519,102
3/10/06 – 6/09/06	435,011	61.79	269,576	8,700	\$260,876
6/10/06 – 9/09/06	435,011	70.03	304,638	83,087	\$221,551
9/10/06 – 12/09/06	435,011	65.02	282,844	31,756	\$251,088
12/10/06 – 3/09/07	435,011	69.42	301,995	76,562	\$225,433
3/10/07 – 6/09/07	435,011	81.23	353,359	235,341	\$118,018
Totals			\$3,239,178	\$1,085,700	\$2,153,478

Source: SIGIR analysis of GRD data and Army Contracting Agency Award Fee Contracts Handbook criteria

⁶ Three contracts for the same contractor were combined into one contract in March 2005.

⁷ The contract selected for this comparison was one where the award fee scores were only slightly above the minimum needed to receive an award fee.

⁸ Although the AFEB originally recommended an evaluation score of 68.48, the AFDO letter states that the contractor performance was in the “Poor - Inadequate” range and no fee was awarded.

By choosing not to change the conversion scale, the U.S. government authorized an additional \$2,153,478.15 to the contractor for performance mostly in the “Good” or “Very Good” range. As a result, the award-fee plan did not effectively provide an incentive to achieve superior performance and may have resulted in the government paying award fees with funds that could have been put to better use.

The other four program-management contractors consistently received scores of 81 or above, in the “Excellent” or “Outstanding” ranges, so the difference in fee awarded by using the recommended conversion scales would have been relatively small. Nevertheless, benefits might still have resulted from using a more appropriate, non-linear scale to encourage better contractor performance.

Conclusion and Lesson Learned

Conclusion

As of June 7, 2007 the U.S. government had spent approximately \$451.6 million on program-management-support contracts and, as of June 9, had authorized approximately \$41.8 million in award fees. However, because the contract did not specify the use of a non-linear conversion scale, the contractors had less incentive to strive for greater performance.

Lesson Learned

Because work on the support contracts we reviewed has ceased or will end soon, we make no new recommendations. On September 23, 2007, we advised JCC-I/A officials of our findings, and a senior JCC-I/A official stated that the U.S. government had transitioned to a strategy of awarding more firm-fixed-price contracts for Iraq reconstruction and was relying less on cost-plus award-fee contracts. However, when cost-plus award-fee contracts are used, government agencies can provide a contractor a greater incentive to achieve superior results by adopting an appropriate conversion scale and writing it into the award-fee plan.

Management Comments and Audit Response

The U.S. Army Corps of Engineers, Gulf Region Division (GRD), in commenting on a draft of this report, indicated that it agreed with SIGIR's "lesson learned" regarding the use of appropriate conversion scales as an incentive for greater performance. The Office of the Assistant Deputy Assistant Secretary of the Army (Policy and Procurement)-Iraq/Afghanistan noted that the Army's *Award-Fee Contracts Handbook* does not mandate the use of a particular conversion scale and that, in the absence of evidence to the contrary, it is presumed that the Contracting Officer determined that the incentive structure provided in the contract was the one that would best motivate the contractor under the difficult circumstances of working in Iraq.

The Assistant Deputy also referenced Office of the Secretary of Defense policy guidance issued in 2006, which emphasizes that award-fee contracts must be structured in ways that will focus the government and contractor's efforts on meeting or exceeding cost, schedule, and performance requirements. The response suggested that the Army's handbook and the OSD policy guidance would be used in the development of future award fee plans. The SIGIR report provides a discussion of best practices and notes that the conversion scale used for contracts included in this report was never identified in the award-fee plans for these contracts. This is the basis for the lesson learned. SIGIR did not receive comments from the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) or the Iraq Transition Assistance Office (ITAO).

Appendix A—Scope and Methodology

In March 2007, SIGIR initiated the audit (Project No. 7013) to determine the roles and responsibilities assigned to the program-management contractors and the extent to which the U.S. Government benefited from such services. We elected to defer to a second report a discussion of the award-fee conversion-scale issue arising from our fieldwork. We initiated the second audit in November, 2007 (Project No. 8008).

We obtained copies of the seven program-management contracts, the associated modifications, and other relevant documentation from the electronic contract files, and the hard-copy contract files at JCC-I/A. Some award-fee documentation was provided from files of the GRD.

To determine the cost of the support contracts, we reviewed financial data obtained from the Corps of Engineers Financial Management System (CEFMS) and provided by GRD.

To determine measurements of contract performance, we interviewed knowledgeable personnel from GRD, JCC-I/A, the Iraq Transition Assistance Office, and the contracting companies. We also obtained and reviewed the relevant award-fee plans, performance evaluations, award-fee rating sheets, AFEB recommendations, AFDO letters, and contract modifications. In addition, we reviewed JCC-I/A Award Fee Board policy.

To determine the appropriateness and impact of the award-fee conversion scales used, we obtained the *Army Contracting Agency Award Fee Contracts Handbook* and compared the best practices cited there with the conversion scales used under the contracts.

We performed both the initial audit (from March 30 through September 10, 2007) and the follow-up (from November 16 through January 3, 2008) in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data

We reviewed financial data relating to program-management contract costs that was derived from CEFMS. This was a limited amount of data and we considered it sufficiently reliable for purposes of this report.

Prior Coverage

SIGIR's prior reports related to program management and award fees can accessed on our website <http://www.sigir.mil>.

- “*Review of the Use of Contractors In Managing Iraq Relief and Reconstruction Projects*” (SIGIR 08-003, October 29, 2007) included a review to determine the extent to which the U.S. government benefited from the services provided by program-management contractors. Because of weaknesses in the implementation of required contracting policies, the review could not conclusively determine the degree to which using these contractors succeeded.

- “*Iraq Reconstruction: Lessons in Program and Project Management*”, (SIGIR, March 2007) included a history of program management during Iraq reconstruction and found that the reconstruction effort required, but did not initially receive, consistent and effective oversight. The report also found that policy shifts resulted not only in long periods of uncertainty but also adjustments to new systems, procedures, and reporting requirements.
- “*Award Fee Process for Contractors Involved in Iraq Reconstruction*” (SIGIR 05-017, October 25, 2005) included a review of 18 cost-plus award-fee type contracts funded under the Iraq Relief and Reconstruction Fund and found that the award-fee plans did not include required criteria with definable metrics. The review also found that the AFEB recommendations and determinations of fees were not documented in sufficient detail to show that the integrity of the award fee process was maintained.
- “*Interim Briefing to the Project and Contracting Office – Iraq and the Joint Contracting Command – Iraq on the Audit of the Award Fee Process*” (SIGIR 05-010, July 26, 2005) included a review to determine if award fees are adequately reviewed, properly approved, and awarded according to established standards. The review found that policies and procedures were established but not consistently applied.
- “*Defense Contract Management – DOD’s Lack of Adherence to Key Contracting Principles on Iraq Oil Contract Put Government at Risk*” (GAO-07-839, July 2007) included a review to determine the extent to which the Department of Defense paid award fees for the Restore Iraqi Oil contract and followed the award fee-process. The review found that DoD did not conduct a formal award-fee board until almost all work was complete and did not provide the contractor with formal award-fee feedback.
- “*Defense Acquisitions – DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes*” (GAO-06-066, December 2005) included a review to determine if award and incentive fees have been used effectively as a tool to achieve DoD’s desired acquisition outcomes. The review found that the power of monetary incentives to motivate excellent contractor performance and improve acquisition outcomes is diluted by the way DoD structures and implements incentives.

Appendix B—Cubic-Distribution Award-Fee Scale

Table 9

PERFORMANCE POINTS	PERCENT OF AVAILABLE AWARD FEE (%)	PERFORMANCE POINTS	PERCENT OF AVAILABLE AWARD FEE (%)
60	0.0	81	53.3
61	1.0	82	56.6
62	2.3	83	59.8
63	3.7	84	63.1
64	5.4	85	66.2
65	7.3	86	69.4
66	9.3	87	72.4
67	11.5	88	75.4
68	13.9	89	78.2
69	16.4	90	81.0
70	19.0	91	83.6
71	21.8	92	86.1
72	24.6	93	88.5
73	27.6	94	90.7
74	30.6	95	92.7
75	33.8	96	94.6
76	36.9	97	96.3
77	40.2	98	97.7
78	43.4	99	99.0
79	46.7	100	100.0
80	50.0		

Source: Army Contracting Agency; Award Fee Contracts Handbook; September 2003

Appendix C—Acronyms

ACA	Army Contracting Agency
AFEB	Award Fee Evaluation Board
AFDO	Award Fee Determining Official
CEFMS	U.S. Army Corps of Engineers Financial Management System
DoD	Department of Defense
GRD	Gulf Region Division, U.S. Army Corps of Engineers
JCC-I/A	Joint Contracting Command – Iraq/Afghanistan
JV	Joint Venture
PMO	Program Management Office
SIGIR	Special Inspector General for Iraq Reconstruction

Appendix D—Audit Team Members

This report was prepared, and the review conducted, under the direction of David Warren, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to this report include:

Benjamin Comfort

Nadia Shamari

William Shimp

Frank Slayton

Roger M. Williams

Management Comments

Office of the Assistant Deputy Assistant Secretary of the Army (Policy and Procurement) – Iraq/Afghanistan



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

ADASA (P&P) I/A

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDIT, SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202

SUBJECT: Management Comments Special Inspector General for Iraq Reconstruction (SIGIR) Draft Report: Appropriate Award-Fee Conversion Scales Can Enhance Incentive for Contractor Performance (Project Number: 8008), Audit Report: SIGIR-08-009.

1. Reference:

- a. Army Contracting Agency Award Fee Contracts Handbook , September 2003.
- b. Subject SIGIR Draft Report: Appropriate Award-Fee Conversion Scales Can Enhance Incentive for Contractor Performance (Project Number: 8008), Audit Report: SIGIR-08-009.
- c. Director, Defense Procurement and Acquisition, OUSD, Policy Memorandum, Proper Use of Award Fee Contracts and Award Fee Provisions, April 24, 2007.
- d. Deputy Undersecretary of Defense (Acquisition and Technology) Memorandum, Award Fee Contracts (FAR 16, DFARS 215, DFARS 216), March 29, 2006.

2. The Office of the Deputy Assistant Secretary of Army (Policy and Procurement) – Iraq/Afghanistan (DASA (P&P) – I/A has reviewed the subject draft report and the referenced documents related to award fee contracts. Comments are provided in the enclosure.

3. Should you have any questions, please contact Ms. Susan Rindner, at (703) 696-1420.


Ben F. McCarter
Assistant Deputy Assistant Secretary of the Army
(Policy and Procurement) – Iraq / Afghanistan

Enclosure

ANNEX -A

ADASA (P&P) I/A RESPONSE TO DRAFT SIGIR AUDIT
(Project Number: 8008), Audit Report: SIGIR-08-009.

Appropriate Award-Fee Conversion Scales Can Enhance
Incentive for Contractor Performance

The draft report refers to the Army Contracting Agency (ACA) Award Fee Contract Guide discussion of conversion scales and indicates that since the examples proposed in the guide began at 0 and the contracts that were reviewed did not, that the awards did not follow the guide. Response: While the guide does provide a variety of samples of conversions scales that start with zero, paragraph 6.2.1 of the guide states that the first step to developing the conversion scale is "to determine the incentive structure that will best motivate the contractor. There is no cookie cutter way to determine the best strategy." The award fee plan is subject to review and approval prior to contract award. This ACA guide provides guidance only for the Contracting Officer in the development of the plan, but does not mandate the use of a particular conversion scale. In the absence of evidence to the contrary, it is presumed that the Contracting Officer determined that the incentive structure that the incentive structure provided in the contract was the one that would "best motivate the contractor" under the difficult circumstances of working in Iraq, and thus complied with the Award Fee Contract Guide.

However, the two referenced Memoranda provide further guidance and directives in the development and application of award fee plans. These memoranda were not issued when the reviewed contracts were awarded, however, would be used, along with guidance from the referenced award fee guide, in the development of future award fee plans.

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Public Affairs	Kristine Belisle Director, Public Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 400 Army Navy Drive Arlington, VA 22202-4704 Phone: 703-428-1217 Fax: 703-428-0818 Email: PublicAffairs@sigir.mil
